

HIGHLIGHTS FOR 403(b) TAX SHELTERED ANNUITIES AND 457 PLANS: The Economic Growth and Tax Reconciliation Act of 2001 (EGTRRA)

**THESE EGTRRA CHANGES ARE GENERALLY EFFECTIVE FOR TAXABLE YEARS BEGINNING AFTER
DECEMBER 31, 2001**

Tax Sheltered Annuity Issue Highlights

Issue	Prior Law	EGTRRA of 2001 Changes
Limit on Plan Contributions	Elective deferrals limited to \$10,500	Elective deferral limit increased to \$11,000 in 2002; increased \$1,000 each succeeding year to \$15,000 in 2006, and indexed thereafter in \$500 increments.
	Limit on employer allocations: Maximum contribution to defined contribution 403(b) arrangement is limited to the lesser of \$35,000, or 25% of compensation	Increased to the lesser of \$40,000 or 100% of compensation. However, the old definition of includible compensation applies for this purpose
	Tax Sheltered Annuity plan contributions limited to lesser of IRC 402(g) elective deferral dollar limit, IRC 415(c) contribution limit [lesser of 25% of compensation or \$35,000], or IRC 403(b) (2) Maximum Exclusion Allowance	<ul style="list-style-type: none"> • IRC 403(b)(2) Maximum Exclusion Allowance is repealed; no longer affects TSA contributions as a limit or allowance. • For tax years beginning after 12/31/99 [& before 1/1/2002], a plan may disregard the requirement that contributions to the employer's defined benefit plan be treated as previously excluded amounts for purposes of the exclusion allowance calculation. • Post retirement employer contributions to 403(b) plans permitted for up to five years after severance from employment. Contribution limits based on retiree's compensation during final year of service.

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Tax Sheltered Annuity Issue Highlights

Issues	Prior Law	EGTRRA 2001 Changes
<p>IRC 415(c)(4) Special election for section 403(b) Contracts Purchased by Educational Organizations, etc.</p>	<p>An employee of an educational institution, hospital and other specified organizations may make an irrevocable election to use one of three special limitations for contribution limits on 403(b) annuity contracts. These options were alternatives to the limit on employer contributions. The “A” limit permits a special election for the tax year in which the employee separates from service. The “B” election was an “any year” election. The “C” election permitted contributions up to the 415(c) limits, without regard to the Maximum Exclusion Allowance.</p>	<p>This section was repealed.</p>
<p>Purchase of Service Credits in Governmental Defined Benefit Plans</p>	<p>No prior provision in the Internal Revenue Code. Under various state laws, state and local government employees may have the option of purchasing credit for prior service. This credit would be for additional benefits in a defined benefit 401(a) plan which covers the employee.</p>	<p>State and local government employees may use funds from their 403(b) arrangements or 457(b) plans to purchase service credits under their defined benefit plans. This will be a trustee to trustee transfer of the actuarially determined amounts.</p>
<p>Rollovers Between IRC sections 401(a), 403(b), 457(b) and IRA arrangements.</p>	<p>IRC section 403(b) rollover provisions were very limited, consisting of only 403(b) to 403(b) or 403(b) to a conduit IRA. After tax contributions may not be rolled over.</p>	<p>Rollovers permitted from and to IRC 401(k), 403(b) and governmental 457(b) arrangements without restriction. Such distributions also become subject to 10% early withdrawal tax, if the distribution consists of amounts attributable to rollovers from another type of plan. After tax employee contributions can be included in an eligible rollover distribution to a qualified plan, or to an IRA or between 403(b) arrangements.. Taxable IRA distributions can be rolled over to any of these plans.</p>

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Tax Sheltered Annuity Issue Highlights

Tax Sheltered Primary Issue Highlights		
Issues	Prior Law	EGTRRA 2001 Changes
Catch-up Contributions for Workers Age 50 and Older	No provision	Individuals who are age 50 or older may make additional contributions to the plan.
		<u>Year</u> <u>Additional Deferrals</u>
		2002 \$1,000
		2003 \$2,000
		2004 \$3,000
		2005 \$4,000
2006 \$5,000		
Repeal of the “Same Desk Rule”	Under the “same desk rule”, a distribution to a terminated employee is not allowed if the employee continues performing the same functions for a successor employer.	The same desk rule is eliminated by replacing “separation from service” with “severance from employment”.

457 Issue Highlights

Issues	Prior Law	EGTRRA 2001 Changes												
Basic limit increases for 457(b) plans	Current 2001 limit is \$8,500	<ul style="list-style-type: none">• Primary 457(b) limit to \$11,000 for 2002 to \$15,000 in 2006• Conforms to elective deferral limits of IRC 402(g), as amended												
Catch up contributions		Last 3 years before retirement, deferrals of twice basic limit. (Underutilized limitation still applies)												
Contribution coordination limits with tax sheltered annuities and 401(k) plans	A maximum of \$8,500 in compensation may be deferred per year in a 457(b) plan. This limit is generally reduced by elective deferrals under other types of arrangements.	The section 457 limit on deferred compensation is not reduced by elective deferrals under other types of arrangements.												
Age 50 or over catch-up contributions for governmental plan participants ONLY		<div>Individuals who are age 50 or older may make additional contributions to the plan.</div> <table><tr><th>Year</th><th>Additional Deferrals</th></tr><tr><td>2002</td><td>\$1,000</td></tr><tr><td>2003</td><td>2,000</td></tr><tr><td>2004</td><td>3,000</td></tr><tr><td>2005</td><td>4,000</td></tr><tr><td>2006</td><td>5,000</td></tr></table> <div>When a participant is eligible for regular IRC 457(b) catch up in the 3 years prior to normal retirement age the higher of the 2 limits (age 50 or pre-retirement catch up) will apply.</div>	Year	Additional Deferrals	2002	\$1,000	2003	2,000	2004	3,000	2005	4,000	2006	5,000
Year	Additional Deferrals													
2002	\$1,000													
2003	2,000													
2004	3,000													
2005	4,000													
2006	5,000													
Purchase of permissive service credit		Allows transfers from 457 governmental plans to governmental defined benefit plan to buy additional service credits												

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